1999 Country Reports on Economic Policy and Trade Practices
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ITALY

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment:			
Real GDP 2/	1,123.1	1,138.1	1,148.6
Real GDP Growth (pct) 3/	1.5	1.3	0.9
GDP (at current prices)	1,159.5	1,184.8	1,177.1
GDP by Sector:			
Agriculture	30.6	30.4	N/A
Manufacturing	291.3	294.3	N/A
Construction	53.4	53.2	N/A
Services	682.2	674.7	N/A
Per Capita GDP (US$)	20,839	20,834	20,699
Labor Force (millions)	23.0	23.1	23.1
Unemployment Rate (pct)	11.7	11.8	11.6
Money and Prices (annual percentage growth):			
Money Supply (M2) 4/	9.0	5.6	5.2
Consumer Price Inflation	2.0	2.0	1.6
Exchange Rate			
(Lira/US$ annual average of market rate)	1703	1737	1800
Balance of Payments and Trade:			
Total Exports FOB 4/	238.2	242.3	148.6
Exports to U.S. 4/	18.9	20.8	N/A
Total Imports CIF 5/	208.1	215.5	136.6
Imports from U.S. 5/	10.2	10.9	N/A
Trade Balance 5/	30.3	26.8	12.0
Balance with U.S. 5/	8.5	9.9	7.6
External Public Debt	80.0	78.6	77.8
Fiscal Deficit/GDP	2.7	2.6	2.2
Current Account Surplus/GDP (pct)	3.2	1.9	1.5

Debt Service Payments/GDP (pct) 6/	10.7	10.7	6.6
Gold and Foreign Exchange Reserves	76.0	53.6	43.4

1/ 1999 estimates based on data available through October.
2/ 1995 prices; GDP at factor cost. 3/ Percentage changes calculated in local currency.
4/ 1999 data is the growth rate of the Italian components of M2 in the Euro area through August.
5/ Merchandise trade. 1999 data through August
6/ Represents total debt servicing costs; less than six percent of total debt is foreign debt.

1. General Policy Framework

Italy has the world's sixth largest economy, having grown into an industrial power in the last 50 years. Italy maintains an open economy, and is a member of major multilateral economic organizations such as the Group of Seven (G-7) industrialized countries, the Organization for Economic Cooperation and Development, the World Trade Organization, the International Monetary Fund, and the European Union.

Italy is one of the 11 founding members of the European Economic and Monetary Union (EMU). Beginning in January 1999, EMU member countries adopted the euro as their currency and the new European Central Bank as their monetary authority. National currencies are being phased out and only euros will be used beginning in 2002. Public opinion polls consistently rank Italy as one of the most "pro-euro" countries in Europe.

Italy has a private sector characterized primarily by a large number of small and medium-sized firms and a few multinational companies with well-known names such as Fiat and Pirelli. Economic dynamism is concentrated in northern Italy, resulting in an income divergence between north and south that remains one of Italy's most difficult and enduring economic/social problems.

Government has traditionally played a dominant role in the economy through regulation and through ownership of large industrial and financial companies. Privatizations and regulatory reform since 1994 have reduced that presence somewhat. However, government retains a potentially blocking “golden share” in all the industrial companies privatized thus far; government and the Bank of Italy continue to shape merger and acquisition activity involving Italian financial and non-financial firms considered “key” to the economy and/or employment; and business surveys continue to cite a heavy bureaucratic burden as one of the main impediments to investing or doing business in Italy.

For years, government spending has been inflated by generous social welfare programs, inefficiency and projects designed to achieve political objectives. The result has been large public sector deficits financed by debt. Beginning in the early 90's, Italy started to address a number of macroeconomic problems in order to qualify for first-round EMU membership. The public sector deficit fell slightly from 2.7 percent in 1997 to 2.6 percent of GDP in 1998, and is expected to be close to 2.2 percent at end-1999 -- aided until late 1999 by declining interest rates which lowered the GOI’s debt servicing cost. The level of public debt, second highest among the EMU countries as a share of GDP, also started to decline but remains over 100 percent of GDP. The GOI plans to reduce the debt level gradually to the EMU target level of 60 percent of GDP.

Up to December 31, 1998, price stability was the primary objective of monetary policy; the Bank of Italy carried out a restrictive monetary policy in an effort to defeat Italy's long-term inflation problem. Now all these powers have been transferred to the European Central Bank, with the Bank of Italy retaining banking supervision responsibilities. Consumer inflation increased only 2.0 percent in 1998 and a 1.6 percent average is expected for 1999, and producer price inflation is negligible, despite a recent upturn mostly related to the increase of prices of utilities and oil and raw materials.

2. Exchange Rate Policy

On January 1, 1999, Italy relinquished control over exchange rate policy to the European Central Bank.

3. Structural Policies

Italy has not implemented any structural policies over the last two years that directly impede U.S. exports. Certain characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a continued heavy state role in the production sector. There has been some progress at addressing these structural issues. Privatization is reducing the government's role in the economy. The 1993 "Single Banking Law" removed a number of anachronistic restrictions on banking activity. Italy's implementation of EU financial service and capital market directives has injected further competition into the sector.

U.S. financial service firms are no longer subject to an incorporation requirement to operate in the Italian market, although they must receive permission to operate from the government's securities regulatory body.

U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors determined to be of national interest, or in cases which create anti-trust concerns.

4. Debt Management Policy

Although the domestic public debt level is high, Italy has not had problems with external debt or balance of payments since the mid 1970's. Public debt is financed primarily through domestic capital markets, with securities ranging from three months to thirty years. Italy's official external debt is relatively low, constituting roughly 5.9 percent of total debt. Italy maintains relatively steady foreign debt targets, and uses issuance of foreign-denominated debt essentially as a source of diversification, rather than need.

5. Significant Barriers to U.S. Exports

Import Licensing: With the exception of a small group of largely agricultural items, practically all goods originating in the U.S. and most other countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. This license is granted to Italian importers when they provide the requisite forms.

Services Barriers: Italy is one of the world's largest markets for all forms of telephony and the largest and fastest-growing European market for mobile telephony. In recent years, the Italian Government has undertaken a liberalization of this sector, including privatization of the former parastatal monopoly Telecom Italia (formerly STET); creation of an independent communications authority; and allowing both fixed-line and mobile competitors to challenge the former monopoly (which Olivetti acquired in a hostile takeover in 1999). Following the EU's January 1, 1998 deadline for full liberalization of its telecoms sector, Italy issued more than 40 fixed-line licenses, including to new entrants (with U.S. participation). Omnitel Pronto Italia, which is partly U.S.-owned, began offering cellular service in December 1995.

In 1998, Italy established an independent regulatory authority for all communications, including telecoms and broadcasting. Concerns remain regarding upcoming licensing and frequency allocation for “third generation” mobile carriers, regulatory due process, transparency and even-handedness in general. But the Italian market is much more open to services exports in this sector than it was prior to implementation of the EU telecoms directive.

In 1998, the Italian Parliament passed government-sponsored legislation including a provision to make Italy's national TV broadcast quota stricter than the EU's 1989 "Broadcast Without Frontiers" Directive. The Italian law exceeds the EU Directive by making 51 percent European content mandatory during prime time, and by excluding talk shows from the programming that may be counted towards fulfilling the quota. Also in 1998, the government issued a regulation requiring all multiplex movie theaters of more than 1300 seats to reserve 15-20 percent of their seats, distributed over no fewer than three screens, to showing EU films on a "stable" basis. In 1999, the government introduced "antitrust" legislation to limit concentration in ownership of movie theaters and in film distribution -- including more lenient treatment for distributors that provide a majority of "made in EU" films to theaters.

Firms incorporated in EU countries may offer investment services in Italy without establishing a presence. U.S. and other firms that are from non-EU countries may operate based on authorization from CONSOB, the securities oversight body. CONSOB may deny such authorization to firms from countries that discriminate against Italian firms.

Foreign companies are increasingly active in the Italian insurance market, opening branches or buying shares in Italian firms. Government authorization is required to offer life and property insurance; this authorization is usually based on reciprocal treatment for Italian insurers. Foreign insurance firms must prove that they have been active in life and property insurance for not less than 10 years and must appoint a general agent domiciled in Italy.

There are some limits regarding foreign private ownership in banks. For instance, according to the Banking Law a foreign institution wanting to increase its stake in a bank above five percent needs authorization by the Bank of Italy.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without either possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by government institutions.

Standards: As a member of the EU, Italy applies the product standards and certification approval process developed by the European Community. Italy is required by the Treaty of Rome to incorporate approved EU directives into its national laws. However, there has frequently been a long lag in implementing these directives at the national level, although Italy has been improving its performance in this regard. In addition, in some sectors such as pollution control, the uniformity in application of standards may vary according to region, further complicating the certification process. Italy has been slow in accepting test data from foreign sources, but is expected to adopt EU standards in this area.

Most standards, labeling requirements, testing and certification for food products have been harmonized within the European Union. However, where EU standards do not exist, Italy can set its own national requirements and some of these have been known to hamper imports of game meat, processed meat products, frozen foods, alcoholic beverages, and snack foods/confectionery products. Import regulations for products containing meat and/or blood products, particularly animal and pet food, have become more stringent in response to concerns over transmission of Bovine Spongiform Encephalopathy (BSE). U.S. exporters of "health" and/or organic foods, weight loss/diet foods, baby foods and vitamins should work closely with an Italian importer, since Italy's labeling laws regarding health claims can be particularly stringent. In the case of food additives, coloring and modified starches, Italy's laws are considered to be close to current U.S. laws, albeit sometimes more restrictive.

U.S. exporters should be aware that any food or agricultural product transshipped through Italian territory must meet Italian requirements, even if the product is transported in a sealed and bonded container and is not expected to enter Italian commerce.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but problems do arise on a case-by-case basis.

Investment Barriers: While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits, and foreign investments often receive close scrutiny. These lengthy procedures can present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport and aircraft manufacturing.

Italian anti-trust law gives the government the right to review mergers and acquisitions over a certain threshold value. The government has the authority to block mergers involving foreign firms for "reasons essential to the national economy" or if the home government of the foreign firm does not have a similar anti-trust law or applies discriminatory measures against Italian firms. A similar provision requires government approval for foreign entities' purchases of five or more percent of an Italian credit institution's equity.

Government Procurement: In Italy, fragmented, often non-transparent government procurement practices and previous problems with corruption have created obstacles to U.S. firms' participation in Italian government procurement. Italy has made some progress in making the laws and regulations on government procurement more transparent, by updating its government procurement code to implement EU directives. The pressure to reduce government expenditures while increasing efficiency is resulting in increased use of competitive procurement procedures and somewhat greater emphasis on best value rather than automatic reliance on traditional suppliers.

6. Export Subsidies Policies

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) and World Trade Organization (WTO) agreements on export subsidies. Through the EU, it is a member of the General Agreement on Tariffs and Trade (GATT) agreements on agriculture and subsidies, and as a WTO member, is subject to WTO rules. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), as well as a number of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small-to-medium size firms. Italy provides some direct assistance to industry and business firms, in accordance with EU rules on support to depressed areas, to improve their international competitiveness. This assistance includes export insurance through the state export credit insurance body, as well as interest rate subsidies under the OECD consensus agreement.

The Italian peach processing sector receives subsidies to compensate it for having to pay the EU minimum grower price for its raw product. It is recognized that this grower price is above the world market price for peaches and a U.S.-EU agreement is in place to monitor the level of subsidies paid. However, there is concern that the processors may receive extra benefits from loopholes in the system.

The Italian wheat processing sector (pasta) in the past received indirect subsidies to build plants and infrastructure. While these plants are still operating, there are no known programs similar to the initial subsidies operating at present.

7. Protection of U.S. Intellectual Property

Italy is a member of the World Intellectual Property Organization, and a party to the Berne and Universal Copyright Conventions, the Paris Industrial Property and Brussels Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

In 1998, the U.S. Trade Representative placed Italy on the Intellectual Property Rights (IPR) "Priority Watch List" under the Special 301 provision of the United States Trade Act of 1988, due to the aforementioned national TV broadcast quotas in excess of the EU norm, and to a lengthy delay in passage of national legislation to address ongoing serious deficiencies in protection of copyright for sound recordings, computer software and film videos. In October 1996, the government introduced anti-piracy legislation in parliament that would impose administrative penalties and increase criminal sanctions. As of the end of 1999, the bill was still awaiting final parliamentary approval. The U.S. will continue to closely monitor developments in this area.

New Technologies: In the spring of 1997, the Italian Minister of Health signed a decree banning the cultivation of Ciba Geigy's BT Corn in Italy, despite the fact that no BT seed varieties are currently included in Italy's National Seed Register. This decision was taken on the advice of Italy's Interministerial Biotechnology Commission, ostensibly based on its opinion that there was a lack of a proper monitoring program regarding BT corn's effect on the ecosystem. After the Biotech Commission reversed its decision, and following EC pressure to remove the ban, the Minister of Health signed the legislation removing the ban in late September.

Italy adopted the EU patent law on biotech inventions in July 1999, but only after an intense debate.

8. Worker Rights

a. The Right of Association: The law provides for the right to establish trade unions, join unions, and carry out union activities in any workplace employing more than 15 employees. Trade unions are free of government controls and no longer have formal ties with political parties. Workers are protected from discrimination based on union membership or activity. The right to strike is embodied in the Constitution, and is frequently exercised. Hiring workers to replace strikers is prohibited. A 1990 law restricts strikes affecting essential public services such as transport, sanitation, and health.

The law prohibits discrimination by employers against union members and organizers. It requires employers who have more than 15 employees and are found guilty of anti-union discrimination to reinstate the workers affected. In firms with fewer than 15 workers, an employer must state the grounds for firing a union employee in writing. If a judge deems these grounds spurious, he can order the employer to reinstate or compensate the worker.

b. The Right to Organize and Bargain Collectively: The constitution provides for the right of workers to organize and bargain collectively and these rights are respected in practice. In practice (though not by law), national collective bargaining agreements apply to all workers regardless of union affiliation. There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor: The law prohibits forced or compulsory labor, and it does not occur.

d. Minimum Age for Employment of Children: The law forbids employment of children under 15 years of age (with some exceptions). There are also specific restrictions on employment in hazardous or unhealthy occupations of males under age 18 and females under age 21. Enforcement of the minimum age laws is effective only outside the extensive "underground" economy, which is mainly in southern Italy.

e. Acceptable Conditions of Work: Minimum wages are set not by law but rather by national collective bargaining agreements. These specify minimum standards to which individual employment contracts must conform. In case of disputes, the courts may step in to determine fair wages on the basis of practice in comparable activities or agreements.

A 1997 law reduced the work week from 48 hours to 40. The regular work week should not exceed six days, and the regular work day eight hours, with some exceptions. Most collective agreements provide for a 36- to 38-hour workweek. Overtime may not exceed two hours a day or an average of 12 hours per week.

The law sets basic health and safety standards and guidelines for compensation for on-the-job injuries. European Union directives on health and safety have also been incorporated into domestic law. Labor inspectors are from local health units or from the Ministry of Labor. They are few, given the scope of their responsibilities. Courts impose fines and sometimes prison terms for violation of health and safety laws. Workers have the right to remove themselves from dangerous work situations without jeopardy to their continued employment. Women are usually forbidden to work at night.

f. Rights in Sectors with U.S. investment: Conditions do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		8,559
Food & Kindred Products	406	
Chemicals & Allied Products	2,267	
Primary & Fabricated Metals	137	
Industrial Machinery and Equipment	2,201	
Electric & Electronic Equipment	928	
Transportation Equipment	715	
Other Manufacturing	1,905	
Wholesale Trade		2,725
Banking		334
Finance/Insurance/Real Estate		774
Services		1,082
Other Industries		(1)
TOTAL ALL INDUSTRIES		14,638

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.